

Budget's red ink colors turmoil in GOP

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Red ink is making Republicans feel blue.

As Democrats hammer away at a record budget deficit that has emerged since President Bush took office, the GOP is struggling with itself over how--and how much--to close the gap between federal revenues and spending.

Already the White House effort to make Bush's tax cuts permanent appears to be in jeopardy, at least for this year. Pressure is growing on the president to veto a popular transportation bill that could test the White House's resolve in getting spending under control.

"There is a real fight over the heart and soul of the Republican Party over the deficit," said Stan Collender, a longtime budget analyst and head of the Washington office of Financial Dynamics, an international communications company.

A deficit that could exceed a record \$500 billion this year is giving the GOP some pause and Democrats some live political ammunition. But few Republicans see the deficit issue as a major threat to Bush's re-election bid.

Rep. Ray LaHood (R-Ill.) said Americans support the administration's defense spending increases to fight the war on terrorism and its tax reductions to bolster the economy.

Although the GOP has a plan to cut the deficit in half within five years, there is growing unrest over whether this can be accomplished and whether the party should take even stronger steps to deal with the red ink.

"Frankly, we have made it worse with the Medicare prescription drug package," said Rep. Jeff Flake (R-Ariz.), a conservative who wants tougher spending restraints and would like to see the president use his veto pen to strike down some spending increases. So far, Bush has not vetoed a single bill.

Republicans are arguing among themselves whether the president's tax cuts should be scaled back to lower the deficit. Most GOP lawmakers are against the idea, but that they are even talking about it now is a marked change.

Some members, such as Rep. Jo Ann Emerson (R-Mo.), believe that the long-term deficit is serious enough to consider sacrificing some tax cuts. "If we are going to be serious about getting rid of the deficit, then we have to be willing to go across the board" to include tax cuts as well as spending increases, she said.

GOP conservatives, unhappy over the surging costs of the new Medicare benefit and a long-term deficit that could harm the economy, applied pressure on the House leadership over the last week to include deficit enforcement measures in the annual budget resolution.

Reining in the deficit

The House Budget Committee complied on Wednesday, essentially requiring that any additions to the budget be offset by subtractions elsewhere. But the committee excluded future tax cuts from this requirement, even though some moderate Republicans had pushed for including them.

The Senate took the opposite approach in its budget resolution, passed last week. With the help of a few moderate Republicans, the Senate approved new deficit-control rules that apply to future tax cuts as well as spending increases.

These clashing approaches to deficit control are likely to spark a major fight between the two GOP-controlled houses when the budget resolution goes to a House-Senate conference committee.

Rep. Gil Gutknecht (R-Minn.), a member of the House Budget Committee, said any future tax cuts should be subject to these budget enforcement rules, but his view did not prevail. He said GOP conservatives "were willing to look the other way" on the deficit during a time of recession and war.

But now, he said, as these events start to settle down, "a lot of us think it is time to get back to the knitting."

A six-year transportation measure may be part of that "knitting." The White House has threatened a veto if the bill exceeds \$256 billion. The Senate approved a \$318 billion bill last month, and the House leadership is talking about spending \$272 billion. House Speaker Dennis Hastert (R-Ill.) has raised questions about the \$256 billion figure, and has said he will work with Bush to pass an acceptable bill.

But if the president is to regain credibility over the deficit issue, he cannot back down on the highway bill, said Michael Franc, vice president of government for the conservative Heritage Foundation. "It is one of those litmus tests where he can stare down profligate members and score a lot of points with his political base," he said.

There is already talk among Republicans of avoiding an election-year showdown over the transportation bill. One proposal is to pass a temporary authorization bill for one or two years. But to deficit hawks, postponement is no way to deal with the red ink.

'Republicans are in denial'

Bush came to power advocating the tax-cut agenda that President Ronald Reagan began in the 1980s. But a recession, terrorism, a war with Iraq and tax reductions helped turn a surplus into a large deficit. Now many conservatives fear that the deficit will threaten that agenda in the future.

"Republicans are in denial," said Bruce Bartlett, an economist who worked for Reagan, Bush's father and former Rep. Jack Kemp (R-N.Y.), co-author of the tax cut Reagan adopted.

"I think we're in the calm before the storm," he said. "At the moment, the deficit is an abstraction. Inflation and interest rates are at historic lows. Sooner or later, one or the other, or both, are going to rise. At that point action is going to have to be taken."

Bartlett added that any deficit-reduction package likely would have to include scaling back tax cuts, arguing that pressure from financial markets would force them to be put on the table. "They have been spending money like there is no tomorrow," he said.

Rep. Jim Nussle (R-Iowa), chairman of the House Budget Committee, denied that Republicans are deeply conflicted over how to rein in the deficit, and by how much. Indeed, some of the public grumbling within the party waned when his panel decided to adopt tougher budget enforcement provisions.

In an interview, Nussle said the nation had a balanced budget on Sept. 10, 2001, a day before the terrorist attacks on the World Trade Center and the Pentagon, "and it didn't protect us," so spending had to be increased in the short term.

He rejected claims made by former Treasury Secretary Paul O'Neill in a recent book that the administration did not care about controlling the deficit.

"Paul O'Neill is probably the most insignificant secretary of the Treasury that I've ever had the opportunity to meet," Nussle said.